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# TRADE POLICY REVIEW MECHANISM

## Review of Indonesia, 29-30 November 1994

## GATT Council's Evaluation

The GATT Council conducted its second review of Indonesia under the trade policy review mechanism (TPRM) on 29-30 November 1994. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in due course as the complete trade policy review of Indonesia and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 & 1994), Japan (1990 & 1992), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 and 1994), and Uruguay (1992).

## CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

### I. Overall economic performance

Council members welcomed the continuation of Indonesia's sound macroeconomic policies since its first review in 1990. Real annual economic growth had averaged over 6 per cent. Inflation, following excess liquidity pressures in 1990-92, had been kept below 10 per cent through prudent monetary policies and the balanced budget requirement. This background had enabled trade and investment liberalization to continue - although more cautiously - and assisted Indonesia's ongoing diversification from the petroleum sector into manufacturing. Members commended the recent liberalization of the investment and trade régimes, in May and June 1994, including the continuing process of replacing non-tariff barriers with tariffs.

A number of questions were asked about Indonesia's transition from an import substitution development strategy to one based on export-led growth. Several participants drew attention to Indonesia's support for strategic manufacturing and agricultural industries and sought details of the coverage and pace of privatization efforts. Members stressed the need for Indonesia to improve the transparency of its trade and investment régimes which, despite impressive achievements to date, remained complex and discretionary. It was suggested that transparency could be facilitated by the existence of a public independent statutory body to advise the Government. In this context, details were requested on the rôle and operation of the Economic Policies Deregulation Team and the Tariff Team.

In response, the representative of Indonesia noted that a solid macro-economic foundation was needed to ensure that trade liberalization had a lasting effect. The shift to outward orientation required major deregulation measures, but these had to be handled in such a way as to minimize social disruption. He outlined the contents of Indonesia's trade and investment packages, as well as other deregulation measures. Institutional changes were being put in place to deal with Uruguay Round implementation. The rôle of strategic industries, support to which had been declining, was to provide an adequate base for technological capacities in the future.

### II. Import régime

Members recognized that Indonesia had made great strides in moving from a régime relying heavily on non-tariff measures to one based very largely on bound tariffs. Its participation in the Uruguay Round had made an important contribution to this process. However, the overall average remained at 20 per cent; tariff escalation and dispersion had tended to increase, exacerbated by import surcharges which had often been used as anti-dumping measures, and substantial tariff peaks persisted. Concern was also expressed that tariffs on some high-rate items would remain unbound. Some members noted that pre-shipment inspection delays had increased considerably as customs functions were being transferred back to the Indonesian authorities.

The complexity of remaining import licences was seen by some delegations as an obstacle to imports. Licensing was often backed up by State-trading or monopolies, including control by BULOG of trade in agricultural goods such as rice. Attention was called to standards applied to imports of meat and mixing requirements for dairy products; the commitment to phase the latter out over ten years was welcomed.

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Questions were asked about Indonesia's commodity and excise tax system, which was seen as discriminating against imports of products such as cigarettes, motor vehicles and luxury goods. Questions were also asked about the long-term viability of Indonesia's local content requirements, such as on motor vehicles.

Some members expressed concern regarding Indonesia's government procurement practices, which remained restrictive and included preferences for domestic suppliers; attention was called to the continued use of countertrade arrangements to increase non-oil exports.

The representative of Indonesia indicated that his authorities intended to reduce average tariffs further, including in transport equipment. In this process, tariff disparities would also be reduced. Surcharges were temporary; their use to counter dumping would cease as Indonesia implemented the Anti-dumping Agreement. Discriminatory taxes would be eliminated. Import licensing had been reduced, but the Government preferred this method to allow infant industries to develop scale economies. Normally, health and safety requirements respected such conditions as the manufacturer's stated expiry date. Indonesia was committed to applying the Customs Valuation and Preshipment Inspection Agreements; in case of any inconsistencies in the application of these agreements, the Valuation Agreement would take precedence. Indonesia was also committed to eliminating non-tariff measures in agriculture, but in the transition period BULOG would continue to stabilize prices. Countertrade was seen as a positive measure used to assist trade with countries with foreign exchange shortages. Local content requirements were temporary; they would be phased out for soybean meal within three years and for dairy products within ten years of the entry into force of the WTO.

## III. Export régime

Some members commented on the use by Indonesia of export taxes on logs and some other products. Such measures could encourage inefficient downstream industries and lead to domestic resource misallocation. Questions were asked about the use of export controls as a main instrument to achieve environmental objectives and promote sustainable development.

Export diversification was seen by several members as the best means of overcoming constraints in Indonesia's external trading environment, such as quotas on textiles and clothing in developed markets. A question was asked about the relationship between investment conditions and the performance of manufactured exports. Additional information was sought on the operation of export processing zones and export oriented production entrepôts in Indonesia.

The representative of Indonesia said, in response, that export prohibitions mainly related to standards, protection of antiquities and nature conservation, while export taxes were intended to develop downstream industries and preserve natural resources. Environmental debate had markedly increased in Indonesia. Tax exemptions were enjoyed by companies in EPZ or EPTEs which exported at least 75 per cent of their output; this did not apply to suppliers to those companies. There was always a lag between investment commitments and implementation; export projections could not be made on a factory basis. Indonesia was hoping to achieve diversification of both markets and products.

## IV. Regional initiatives

Members recognized the importance of intra-regional trade in Indonesia's development. Reference was made to Indonesia's active rôle in supporting the ASEAN Free-Trade Area (AFTA) and the aim of implementing the region's common external preferential tariff (CEPT) by 2003. Members sought clarification on the CEPT tariff reduction programme and the treatment of services and agricultural

products. Additional details were requested on rules of origin under the AFTA, especially the difference in content levels between Indonesian exports and imports.

Members acknowledged Indonesia's major rôle in the recent APEC summit, and the initiatives taken to promote free trade and investment in Asia and the Pacific by the year 2020. Assurances were sought that such arrangements would be implemented in an outward-looking manner, within the perspective of the WTO.

In response, the representative of Indonesia provided details on the acceleration of the CEPT, as well as the time frame for further liberalization under the AFTA. This had been accelerated to 10 years, with a final tariff level of 0-5 per cent to be achieved under different tracks. Products in the temporary exclusion list would be included from 1995. He noted that the APEC Bogor Declaration contained a decision to accelerate the implementation of the Uruguay Round commitments and to undertake work aimed at deepening and broadening the outcome of the Round.

## V. Other issues

The representative of Indonesia stated that, while Indonesia would, in the interests of transparency, volunteer information on "new areas" such as services, TRIPs and TRIMs, he did not consider labour standards a subject for TPRM discussion.

Members welcomed steps taken in May 1994 to liberalize Indonesia's investment régime, including the decision to open some service industries to foreign direct investment. However, a number of concerns remained, on aspects such as investment restrictions applied to products on the Negative Investment List. Clarification was sought on the operation of foreign ownership and divestment requirements, including the share of foreign ownership to be divested by wholly-foreign-owned companies within the stipulated 15 years.

Members sought clarification on the implications of the TRIPs and TRIMs agreements for Indonesia, and of plans to improve its intellectual property rules. Some participants commented on the restrictions applied in Indonesia's service industries, and sought information on policies aimed at making the sector more competitive.

The representative of Indonesia responded that, during the transitional period allowed in the TRIPS agreement, new provisions would be prepared. Indonesia was already preparing amendments to its relevant laws for tabling in the next two years. Data on trade in services were everywhere rudimentary, but existing figures showed that Indonesia was a net importer of services with deficits of US$5 billion in 1990/91 and US$5.8 billion in 1993/94, excluding debt servicing. This indicated that the services sector in Indonesia was reasonably open. Conditions were also changing fast and gradual opening of the market would continue.

## VI. Outlook

A number of members, noting signs that the process appeared to have slowed, emphasized the need for Indonesia to continue steadily with trade-related reforms. The need for continuity and irreversibility of policies was stressed. In this connection, some members sought information on the timing of future reforms. Commitments made by Indonesia under the Uruguay Round were seen as one important means of "locking in" autonomous policy reforms, and facilitating Indonesia's progressive integration into the global economy.

In response, the representative of Indonesia said that trade barriers would be eliminated gradually and steadily, in accordance with the needs of national development and the maintenance of a competitive environment. Uruguay Round commitments would be implemented according to the agreed timetable; developments in ASEAN would, however, move more rapidly.

## Conclusions

Members welcomed the significant progress achieved by Indonesia in attaining a stable macroeconomic environment and ongoing trade and investment reforms. They welcomed Indonesia's active participation in the Uruguay Round and its recent ratification of the WTO Agreement. Indonesia was urged to maintain its successful reform programme, including reducing high tariffs, eliminating surcharges and distortions which could impede development in the future. Future reviews under the WTO procedures were seen as a welcome guide to further progress in all relevant areas.

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